



WENDY L. WATANABE
ACTING AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

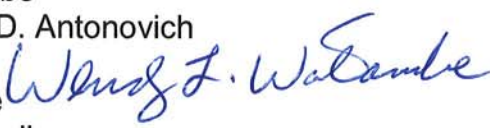
KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2706
PHONE: (213) 974-8301 FAX: (213) 626-5427

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

October 2, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe 
Acting Auditor-Controller

SUBJECT: **AB 1389 Budget Trailer Bill - Implementation Requirements for Past Statutory Redevelopment Payments to Schools and Other Local Agencies**

On June 6, 2008, the Chief Executive Officer and I reported to you that the State Controller's Office (SCO) issued its final, Phase Two Report regarding the practices of school districts, community colleges and redevelopment agencies (RDAs) related to the distribution and reporting local incremental property tax pass-through revenues.

RDAs must share some revenues from post-1993 projects with, among other taxing agencies, local schools. The review, under the 2007-08 State Budget Act, reflects concern that the State's backfill obligation to local schools had not decreased as much as anticipated given the growth of property taxes prior to 2007. There was an apparent discrepancy between property tax growth reported to the State Board of Equalization and payments reported by K-12 school districts and community colleges.

The SCO's review disclosed that a number of RDAs in Los Angeles County, and most other California counties, have failed to make AB 1290 pass-through payments to affected taxing entities. Some local schools also apparently failed to properly report payments received, increasing the State backfill.

Senator Negrete McLeod, Chair of the Senate Local Government Committee, introduced SB 360 to remedy the issues cited in the SCO's report in the future. SB 360 would impose on the Auditor-Controller of each County the RDAs' former responsibility

to calculate and allocate the AB 1290 payments to affected taxing entities. Governor Schwarzenegger vetoed this bill on September 27, 2008.

The Committee on Budget introduced AB 1389, a trailer bill which includes a provision to recover prior year pass-through payments from RDAs for the past five years. On September 30, 2008, Governor Schwarzenegger signed this bill. AB 1389 requires that by October 1, 2008 all RDAs report to its County Auditor-Controller the statutorily required payment amounts each was (1) obliged to make and (2) actually disbursed for fiscal years 2003 through 2008.

The Auditor-Controllers are then required to review each report and issue a finding of concurrence or return the report to the RDA for revision. RDAs must pay taxing agencies any shortfall amounts or experience serious consequences. Further, by December 15, 2008, and annually thereafter through 2014, the Auditor-Controllers must report to the SCO and identify RDAs that have remaining unpaid pass through obligations. The costs associated with implementing this new legislation have not yet been determined. However, AB 1389 does allow for County Auditor-Controllers to require the RDAs to reimburse their costs to carry out these provisions.

Due to the State budget impasse and the late signing of AB 1389, it is obvious that the RDAs as well as my office will not be able to meet the statutory deadlines. The SCO is currently preparing a standardized reporting document for all RDAs to use. Upon completion, this document and instructions will be posted on the SCO's website for RDAs to access. The SCO has instructed County Auditor-Controllers and RDAs to wait for the standardized reporting document to be available and then submit the reports accordingly. My staff is working with the County's RDAs and will comply with AB 1389's mandates to the best of our ability.

If you have any questions regarding this matter, please contact me, or your staff may contact Susan Linschoten at (213) 974-8361. Your staff may also directly refer RDAs to Ms. Linschoten of my Property Tax Division.

WLW:SJL

C: William T Fujioka, Chief Executive Officer
Raymond G. Fortner, Jr., County Counsel